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C O N F I D E N T I A L SECTION 01 OF 09 BRASILIA 000469

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STATE FOR WHA AND WHA/BSC

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SUBJECT: SCENESETTER FOR POLICY PLANNING DIRECTOR GORDON

REF: BRASILIA 00369

Classified By: Ambassador Clifford M. Sobel. Reasons: 1.4 (B) & (D)

¶1. (C) Summary: The relationship between the United States and Brazil is as productive and broad-based as it has ever been, the result of the excellent relationship between President Bush and President Luiz Inacio Lula da Silva, new cooperation mechanisms on biofuels, business issues, and economic matters, and our shared goals of fostering hemispheric stability, promoting democracy, developing a consensus on next steps regarding climate change, and achieving a mutually satisfactory conclusion to the Doha round of WTO negotiations. At the same time, U.S.-Brazil cooperation is often limited by the GoB's unwillingness to speak out against anti-democratic actions in the hemisphere (Venezuela and Cuba), take proactive steps to address key issues such as nuclear proliferation and counterterrorist concerns, and expand its international leadership in meaningful ways. End Summary.

Lula Popular, But What Comes Next?

¶2. (C) With a 67 percent approval rating, President Lula is more popular than at any other point since he took office in 2003. Continuity and legacy are the guiding lights of Lula's second term. Lula continues to shape his legacy as a friend of the poor and builder of a foundation for prosperity for the lower and middle classes through broad social welfare programs and a vast, new economic growth program of public works and growth incentives. At the same time, Lula has failed to promote needed reforms to abolish a political culture of corruption, clientelism, and spoils. Although a seemingly endless series of corruption scandals has not dented his personal popularity or that of his government, these scandals have felled political allies, including cabinet ministers, in recent years.

¶3. (U) President Lula and his economic team's prudent fiscal and monetary policies and reform efforts are a major reason for his popularity, and have resulted in Brazil's position as the tenth largest economy in the world, with a trade surplus and BB-plus credit rating. Annual GDP growth was

approximately 4.5 for 2007, as was inflation. Buoyed by exports and investment inflows, Brazil's currency, the Real, has remained strong, and the government has succeeded in paying down its external debt. However, there are major structural challenges to long term growth. Real interest rates are among the highest in the world. The informal sector constitutes an estimated 40 percent of the economy, in part due to the tax burden (34.2 percent of GDP in 2006), one of the highest among large developing economies. Brazil's opaque and onerous regulatory and legal system, as well as poor transport and other infrastructure, continue to constrain growth.

¶14. (C) Lula is concerned with finding an electable successor for 2010, and appears to be grooming his top domestic policy adviser, Minister Dilma Rousseff, while keeping other options open. Attention in the media and among the political elite is already focused on the race; the opposition governor of Sao Paulo state and former presidential candidate, Jose Serra, currently leads the pack of possible candidates.

¶15. (U) Despite a healthy economy and a slight drop in homicides registered over the past several years, public opinion polls consistently show that the top concerns for Brazilians continue to remain public security and lack of jobs. These are normally followed by quality of health care and education, corruption, low wages, and lack of opportunities for youth. These will likely remain issues heading into the municipal elections later this year, and into the 2010 presidential elections.

Foreign Policy: Hesitant Globally; Cautious Regionally

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¶16. (C) Brazil's foreign policy is dominated by symbolic steps to burnish its South-South credentials and status as an emerging leader, rather than by resolute attention to core political and economic interests, including strengthening bilateral political and trade relations with the United States. The attainment of a permanent seat on the UN Security Council has been a central tenet of Brazil's foreign policy under President Lula da Silva's government, and most of its actions on the international stage are geared toward that goal. However, Brazil has largely failed to assume the international leadership role that would make it a strong candidate for such a position. Brazil's latest two-year stint on the UNSC, which ended in January 2006, was characterized by caution and equivocation rather than vision and leadership. The GoB has so far not used its significant contribution to stability in Haiti as a step along the road to becoming a champion of international peace and security. For example, the GoB has yet to respond to repeated requests for assistance with peacekeeping in Darfur.

¶17. (C) Regionally, Lula has maintained Brazil's historic focus on stability, seeing dialogue and good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an active dialogue with and refuses to criticize human rights violations in Venezuela and Cuba, has worked hard to restore relations with Bolivia even at the expense of its own economic interests, and stood firmly on the principle of respect for sovereignty, with only minimal mention of counterterrorism concerns, in responding to the dispute between Colombia and Ecuador (ref A).

Foreign Policy: Leader in Regional Integration

¶18. (C) In the end, Brazil's actions during the recent crisis between Ecuador and Colombia showed that it values regional integration and sovereignty above all else, where it played an active but low-key role. In keeping with the basic

precepts on which it bases its foreign policy) non-intervention in the internal affairs of other nations, working within regional and international organizations to resolve problems through consensus, and an almost obsessive preoccupation with evenhandedness) Brazil worked behind the scenes at the OAS special session and the subsequent Rio Group Summit in Santo Domingo to help diffuse the crisis. Brazil refrained from making any strong public statements admonishing Venezuela for interfering in what Brazil saw as a bilateral issue between Ecuador and Colombia, or condemning the FARC for its terrorist activities that precipitated the crisis. Lula made calls to Presidents Correa (who he also met with in Brasilia) and Uribe to discuss the situation between the two countries and to Argentine President Kirchner to coordinate diplomatic strategy. Overall, GOB actions during the crisis provided some insight into how it prefers to exercise what it sees as Brazil's natural role as a regional leader. It does not prefer to lead from the front, but rather from within the pack. Brazil sees regional integration as a highly desirable goal to be obtained through consensus and suasion rather than direct confrontation with potential destabilizing influences such as Chavez and his Bolivarian Republic of Venezuela.

¶9. (C) During the two Bush/Lula meetings in March 2007, President Lula stated that the U.S. and Brazil should work together to promote regional integration in South America. Since then, however, certain elements within the GOB, Itamaraty in particular, appear to be trying to walk back initiatives aimed at increasing U.S./Brazil cooperation on bilateral and regional issues. This opposition to an increased U.S. role in the region is on the one hand based on a traditional mistrust of the U.S. especially among the Brazilian elite, of which Itamaraty is a part, and on the other hand the perception that Brazil's position as regional leader would be diminished by a strong and active U.S. presence in the region. Those who adhere to the latter

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position see increased cooperation with the U.S. as a zero sum game and may believe that proposed regional organizations such as the South American Defense Council, and to a lesser extent, the Bank of the South, would serve to exclude the U.S. from playing a greater role in regional integration initiatives and as a counterbalance to U.S. influence. Others in the GOB and Congress believe that Brazilian participation in the new regional organizations would provide the means by which Brazil can influence and moderate the potentially destabilizing behavior and activities of Hugo Chavez and his allies such as Evo Morales.

Foreign Policy: Cooperative Relations with China

¶10. (C) Sino-Brazilian relations are officially excellent, characterized by a booming economic relationship and a political relationship that has become increasingly closer, especially since the exchange of visits by Presidents Hu and Lula in 2004. The economic relationship is based on "complementarity," not competition: Brazil exports to China low value added commodities such as iron ore, soy, and petroleum, with these three commodities representing about 70% of the export value, while China exports high value added goods such as electronics and industrial equipment. There is some discontentment in the Brazilian private sector over the unbalanced trade relationship and low level of Chinese investment in Brazil, but both governments are taking a long-term view and believe a patiently constructed relationship will increasingly yield political fruits. Brazil and China have designated each other a Strategic Partner. In 2006, they inaugurated the High Level Committee on Consultation and Cooperation (COSBAN), which meets biennially, and they agree to support each other in international organizations, work toward a successful conclusion of the Doha Round, and cooperate in many political

areas to strengthen south-south relations and the voice of the developing world globally. Yet China does not support Brazil's top foreign policy goal: a seat on the UN Security Council. The Sino-Brazilian relationship is both competitive and cooperative, and they have much to offer each other, but it is not clear whether over time the two sides will manage the relationship to maximize its potential for each side.

Foreign Policy: "Balanced" Mid-East Approach

¶11. (C) As part of its efforts to burnish its global leadership credentials, Brazil has a very active Middle East agenda. Already this year Foreign Minister Amorim has undertaken a five-country Middle East (ref B), followed by an Arab-South American foreign ministers meeting in Buenos Aires also in February, and bilateral talks with Iran in March. Still on deck for the year: possible state visits by Syrian president Asad and the King of Jordan; a probable trip to the Middle East by President Lula; opening of new embassies in Oman and Qatar; potential trade accords with Egypt, Jordan and Morocco and the hope of finishing the long-delayed trade accord with the Gulf Cooperation Council; and capping off the year, the Arab-South American Summit in Qatar. Itamaraty also intends to follow up on Lula's August 2007 letter to Palestinian leader Mahmoud Abbas offering to form a Friends of Peace group with other interested countries, such as those in IBSA (India and South Africa), to seek further engagement in the peace process.

¶12. (C) The GOB is cautious about taking an active role in non-proliferation efforts, and has consistently refused to take a strong position against Iran's nuclear efforts. Brazilian officials consider their seat at the table in Annapolis as a foreign policy success and see themselves as balanced in their dealings with Israel and the Palestinians, but they have yet to define a substantive role for Brazil. FM Amorim's suggestion that Iran, Syria, Hamas, and Hezbollah should be included in the negotiations suggest continuing naivete regarding the peace process and Middle East

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relations, as does his recent remark to a U.S. official that Brazil's growing "friendship" with Iran will prove useful should the United States, in the future, decide to engage Iran.

¶13. (C) Brazil likes to characterize its relationship with Iran as correct and balanced, one cognizant of Iran's troubled status within the international community, but one that does not repudiate Tehran either. Iran, for its part, is looking to drum up increased Brazilian investment in Iran, develop closer bilateral ties, and secure a long-delayed meeting between Iranian President Ahmadinejad and President Lula. Iran is also seeking for increased opportunities to balance its trade, which currently overwhelmingly favors Brazil. Exports to Iran account for about 30% of total Brazilian exports to the Middle East, or about US\$1.8 billion, which accounts for about 99% of trade volume between the two countries. With regard to Iran's nuclear program, Tehran seeks out Brazil in order to draw parallels between Brazil's peaceful nuclear energy program and Iran's nuclear activities. Although Brazil voted in favor of referring Iran to the UN Security Council in February 2006, from the onset, the GOB opposed the effort until the vote in the IAEA had become a foregone conclusion, when the PRC and Russia agreed to a western compromise proposal. Brazil did not vote to condemn Iran's nuclear activities until Iran missed the UN-mandated deadline for allowing international inspectors to visit suspicious nuclear facilities. As is often the case with its Mideast diplomacy, Brazil's pursuit of a "correct" relationship likely will continue to produce decidedly mixed results which at times will be at odds with the policy objectives of most Western countries.

Friendly Cooperation, Not Strong Friendship

¶14. (C) Bilaterally, the GoB has pursued generally friendly relations with the United States, but continues to favor building ties with developing nations over closer relations with the United States and other developed nations. While seeking to expand our bilateral dialogue, the GoB has studiously avoided working closely with us on broad strategic issues important to us. Those issues on which it has been willing to work with us--biofuels, investment, and climate change, for example--are areas where the GoB considers itself a visibly equal partner. The exception may be security-related issues, where the appointment of Nelson Jobim as Defense Minister has brought new interest in cooperation. But it appears that in this area, as with our efforts on counternarcotics, environmental protection, counterterrorism, and other issues, the Foreign Ministry is seeking to maintain its historic dominance and distance from the United States, which it does by controlling the agenda and throwing up barriers that delay and sometimes scuttle bilateral efforts that other ministries support.

¶15. (SBU) We continue to seek opportunities for positive bilateral cooperation through the mechanisms including the Economic Policy Dialogue (EPD), the second session of which was held March 6 in Washington. The EPD provides an important opportunity to reinforce our view of Brazil as partner in areas of mutual interest. Cooperation to foster innovation and agricultural coordination, to possibly include assistance to African countries, are new topics of conversation bilaterally. Additionally, we have been working to develop a regional infrastructure initiative. We have been exploring one another's regulatory frameworks in hopes of addressing barriers and achieving a Bilateral Tax Treaty and a Bilateral Investment Treaty. Civil aviation is an area of renewed focus with the next round of talks expected in ¶2008. There are also continuing efforts under the auspices of the bilateral CEO Forum to address issues of common interest.

¶16. (U) The growing bilateral relationship is reflected in the number of high-level officials who have visited Brazil. Most recently, Secretary Rice A/S Shannon (who has visited

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twice in the past 4 months), and A/S Lowery had productive meetings with Foreign Minister Amorim and other high-level Brazilian officials. During the last several months others have made stops in Brazil, including Commerce A/S David Bohigian, Treasury DAS Brian O'Neill, Deputy Assistant USTR Chris Wilson, A/S Sullivan, U.S. Army Chief of Staff General George Casey, FTC Chairman Deborah Platt Majoras, Commerce Secretary Gutierrez, National Economic Council Director, Al

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Hubbard, Treasury Secretary Paulson, U/S for Democracy and Global Affairs Dobriansky. At least six CODELs have visited Brazil in the past six months.

¶17. (C) USAID has sought to target its efforts in Brazil towards promoting sustainable livelihoods through working on issues such as health, the environment, and small and medium-sized enterprises. Our bilateral dialogue with the GoB on development assistance to Brazil and in third countries contains positive elements, including promising potential in biofuels, but is constrained by differences in approach to anti-poverty efforts, with the GoB focusing on cash transfers, while the USG prefers more finely targeted assistance. The Brazilian Government's multi-billion dollar poverty alleviation program -- Bolsa Familia -- receives technical assistance from the World Bank and IDB, but USG budget constraints and the fact that it is a cash transfer program (albeit with conditions) keep us from actively cooperating with the initiative. The GoB also rejected our

flagship regional environmental program, the Amazon Basin Cooperation Initiative, which will now be pursued on a bilateral basis. Cuts in USAID's budget may severely impact our ability to continue these programs.

¶18. (SBU) The Brazilian public has a mixed view of the United States. Seventy-five percent say relations between Brazil and the U.S. are very good or fairly good, and Brazilians by a wide margin consider the U.S. the most important country in the region for Brazil. Those who follow the news know that U.S.-Brazil cooperation on trade issues has global importance and new areas of cooperation such as biofuels are potentially significant. There has been a much more positive view of U.S.-Brazil cooperation since the signing of the biofuels MOU last year. On the other hand, there is a good deal of skepticism about U.S. foreign policy, particularly on issues such as Iraq and Cuba. There is resentment over the long wait times for U.S. visa applications, a product of a spike in demand without commensurate increases in staffing. There is also an unfounded fear that the U.S. or other foreigners want to take over or internationalize the Amazon.

Areas of Cooperation: Mixed Bag on Mil-Mil Relations

¶19. (C) While mil-mil cooperation on the forces level continues to grow, the policy level of the Brazilian government, particularly the MRE, continues to hold back the relationship. As long as the current government remains in power, this situation is unlikely to change. We can, however, pursue initiatives with Brazil that Brazil perceives to be in its interest-- a General Security of Information Agreement, for example -- while we enhance existing ties between militaries. As a stable multi-ethnic democracy, Brazil is a key partner for the U.S. in helping maintain stability in Latin America, as evidenced by its role in managing the Columbia-Ecuador confrontation. Brazil has recently made much of its proposal for a South American Defense Council (SADC), although the idea appears to have little traction among Brazil's neighbors (excepting Venezuela). The SADC could be useful in coordinating peacekeeping, along the lines of the African Union, but the Brazilians see its value more in terms of reinforcing Brazilian leadership, moderating Venezuela President Chavez and facilitating common military production (primarily in Brazil). Should the Brazilian proposal lead to formation of such a Council, the U.S. should encourage a focus on practical matters such as maximizing the effectiveness of peacekeeping, and avoiding duplication of activities currently carried out by the OAS or Inter-American Defense

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¶20. (C) Brazil's apparent determination to look at real restructuring of its military offers important opportunities for U.S. engagement to build a partnership to export stability throughout the hemisphere. Brazil would like access to U.S. technology and expertise, although any appearance of dictating Brazil's future military structure will have negative results. An open exchange of ideas and willingness to provide advanced U.S. military technology (subject to appropriate export control regulations) will have far reaching benefits to the bilateral relationship and could begin to undermine some of the reflexive anti-Americanism among Brazil's policy elite. As a first step, we should indicate we would be willing to discuss sale of non-nuclear U.S. technology to Brazil's submarine program, even if Brazil plans to build a nuclear powered submarine. By doing so, we will be treating Brazil as an important, responsible partner and will be supporting their most prestigious defense program without violating nonproliferation standards.

Areas of Cooperation: Science and Environment

¶21. (C) Brazil has first class scientists and facilities in a number of areas. The U.S. Government (USG) has well-developed scientific cooperative arrangements in two areas with Brazilian counterparts: the Agriculture Research Service of the U.S. Department of Agriculture (USDA/ARS) with EMBRAPA of the Ministry of Agriculture (this includes long-term exchanges of researchers); and the National Institutes of Health with the Ministry of Health, FIOCRUZ (an institution that works with vaccines), and other health institutions. The National Science Foundation (NSF) and a variety of other U.S. agencies have modest or limited collaborative scientific activities with Brazilian counterparts. Many elements of the U.S. private sector, academia and non-governmental organizations (NGOs) have established scientific ties with Brazilian counterparts. Brazil has demonstrated remarkable scientific and technological prowess in a number of areas, most notably with deep sea oil and gas exploration by PETROBRAS, aviation technology with EMBRAER, and information technology.

¶22. (C) Brazil is a key player in the ongoing negotiations for a new international climate change agreement to succeed the Kyoto Protocol. It has become an active participant in the Major Economies process. While a fierce defender of the principle of "common, but differentiated responsibilities," the GoB sees a need for an appropriate balancing of environmental and economic concerns when addressing the problem. Brazil is home to the largest remaining tropical forest (the Amazon) and any agreement will need to address the problem of large-scale deforestation there. For its part, the GoB recognizes the importance of reducing deforestation, but is fearful of accepting binding goals which might be used to justify trade sanctions or other punitive measures. Despite the increasing interest in climate change, the USG has sharply cut-back its support for climate change research in the Amazon and winding down its environmental cooperation. The decade long, multi-million dollar environmental research project (LBA), which had been run by NASA and which had studied the Amazon, is closing down. Further, the LANDSAT satellites that used to assist Brazil on monitoring the Amazon are reaching the end of their useful lifespans with no substitute in sight, and thus Brazil has turned to China for assistance with satellite monitoring.

¶23. (C) There are a variety of small environmental cooperative efforts. The U.S. Forest Service is helping the newly created Brazilian Forest Service. The U.S. Geological Survey, the Smithsonian Institution, the National Oceanic and Atmospheric Administration, the U.S. Army Corps of Engineers, and the Department of Energy have in recent years had limited environmental activities in Brazil. Interestingly, U.S. NGOs and academia have become quite active in Brazil and frankly

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bring far more resources to the table. NGOs such as the Moore Foundation, the Packard Foundation, the World Wildlife Fund, The Nature Conservancy and others provide many times more the assistance that the USG provides.

Areas of Cooperation: Biofuels

¶24. (C) Your visit comes just after the one year anniversary of your signing the Biofuels MOU and the March 3 meeting of the Biofuels Steering Group. This initiative has provided the groundwork for increasingly positive bilateral relations and has produced some notable results, including a model for biofuels standard regimes internationally, cooperative efforts to aid Haiti, El Salvador, St. Kitts and Nevis, and the Dominican Republic in developing their own ethanol capacity. The GoB and USG are pursuing cooperative scientific activities to develop the next generation of

biofuels. The more numerous and often better-funded U.S. scientists and laboratories can benefit greatly from this cooperation with Brazil's world-class cadre of scientists and laboratories, which have established an impressive record over the last 30 years. We anticipate a visit by Energy Secretary Bodman in the coming months and hope to use the

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opportunity to broaden our energy cooperation beyond biofuels to other areas for expanded collaboration. In spite of President Lula's enthusiasm for closer biofuels cooperation and apparent GoB readiness to cooperate, the Foreign Ministry, though, appears to be trying to delay implementation of some of the provisions in the MOU.

Proud to be Energy Self-Sufficient

¶25. (C) Brazil is very proud of the fact that it recently became, at least on the books, self sufficient in petroleum. They export some of their production but due to the level of their crude, they are still obliged to import other grades of fuel. Brazil hopes to become a leading oil exporter with the development of the recently discovered deep water reserves in the Santos basin, near Sao Paolo. Petrobras, which has been working in the Gulf of Mexico as the world's leader in deep water technology, hopes to capitalize on this find; an interest that has led to worries on the part of U.S. and international oil companies that the government may be trying to set up the parastatal Petrobras to have, if not exclusive, at least primary rights to these new finds. This concern was amplified by the withdrawal of the auction blocks for exploration rights related to this area just before the auction was to take place. Brazil, which has one of the world's greatest reserves of uranium but has only a small civilian nuclear operation, also has ambitions of becoming a world yellow cake exporter. Brazil has been a gas importer from Bolivia, a relationship that has been complicated by Morales, unilateral renegotiating of contracts with Petrobras. Brazil also has an unfulfilled contract for gas imports from Argentina, shares its largest hydroelectric dam with Paraguay, and has ongoing conversations with Venezuela's Chavez over a possible gas pipeline and a cooperative oil refinery near Recife, for which despite rhetoric, Petrobras continues to bear the financial costs. Judging by recent talks with GoB officials, more energy cooperation with the U.S. is welcome. We anticipate a visit by Secretary Bodman in mid-May to broaden our energy cooperation beyond biofuels to other areas for expanded collaboration.

Areas of Cooperation: Fighting Discrimination

¶26. (SBU) Comprising close to half of Brazil's population, over 90 million people, Afro-Brazilians are widely discriminated against not only by the broader society, but also by &lighter-skinned8 people of African descent who often do not identify themselves as black. Brazilians often

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reject the notion that discrimination is widespread, both as a result of differing conceptions of race from that generally accepted in the U.S.--officially, only seven percent of Brazilians are considered Afro-Brazilian--and because of the overlap of racial discrimination with poverty. Nonetheless, there is increasing recognition that discrimination is tarnishing Brazil's image as a modern, multi-racial, multi-ethnic democracy. President Lula is personally committed to tackling Brazil's racism issue. He has appointed more Afro-Brazilian members to his cabinet than any previous president, named the first black justice to the Supreme Federal Tribunal, and created the Cabinet-level position of Special Secretariat for Policies to Promote

Racial Equality (SEPPIR). His Worker's Party (PT) is pressing the Chamber of Deputies to pass a bill that would create Brazil's first Racial Equality Statute (which the Senate approved in November 2007). The statute would mandate racial/ethnic quotas at federal universities, although the private sector and some state and federal universities already implement them. The effort is nonetheless controversial, with critics claiming that quotas only create a conscious divide between races.

Engaging with Brazilians: Public Diplomacy

¶27. (U) The total public diplomacy budget for Brazil is roughly four million dollars, excluding salaries. Major programs include our highly successful Youth Ambassador program, English Immersion USA, an active speakers program, and about 50 International Visitors per year. Other exchanges include community college students and administrators, high school administrators, and university student leaders. We are increasing support for English language programs with more money for English Access Micro Scholarships and for student advising through Opportunity Initiative Grants. Both programs are funded by ECA. We work closely with Binational Centers whenever we can to leverage our resources.

¶28. (U) Brazil's growing economic development and increasingly affluent population will increase demand for English and overseas study in the U.S. While we are increasing resources in both those areas, we lack the staff to handle the growing demand.

Engaging with Brazilians: Expanding Academic Outreach

¶29. (U) Although there is no degree-granting American Studies program in Brazil, several academic centers that focus on US topics are starting to emerge. The eight ECA sponsored Study of the U.S. Summer Institutes for university professors receive many Brazilian applicants, although only three were chosen this year. ECA's excellent initiative to create a university student leaders seminar on U.S. studies received over a thousand applicants from Brazil for 18 slots. The program was a great success, with many of the participants changing the focus of their academic research to the U.S. as a direct result of the experience.

¶30. (U) The post has a large and active Fulbright program which currently has 183 Brazilians in the U.S. and 57 U.S. students and scholars in Brazil. The program receives approximately \$5.1 million from the U.S. side, a figure that includes tuition waivers from U.S. universities. The USG directly supports the program with about \$1.5 million. The Brazilian contribution, through CAPES, is approximately \$6.3 million in support of Brazilians in U.S. universities and a more limited number of U.S. citizens in Brazil. A separate program, the CAPES-FIPSE annual grant competition, funds ten new academic partnership projects each year. These programs are co-funded by the U.S. and Brazilian governments at the rate of USD 50,000 per year per side for a period of four years. To date over 50 partnerships involving over 200 universities have been established.

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